

# **AXL Charter School**

(A Component Unit of the Joint School District No. 28-J of the  
Counties of Adams and Arapahoe, Colorado)

Financial Statements and Independent Accountants' Reports

June 30, 2009

**AXL Charter School**  
June 30, 2009

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
AXL Charter School  
and Board of Education  
Joint School District 28-J of the Counties of Adams and Arapahoe, Colorado  
Aurora, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of AXL Charter School (the School) (a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado) as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of AXL Charter School as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

November 6, 2009,  
except for Note 12 as to which the date is December 4, 2009

# **AXL Charter School**

## **Management's Discussion and Analysis**

### **As of and for the Year Ended June 30, 2009**

As management of AXL Charter School (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

#### **Financial Highlights**

The year ended June 30, 2009, was the first year of operations for the School. As of June 30, 2009, net assets amounted to \$30,169. The activities of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). State categorical revenue for the year was \$1,471,681 and the School had one budget amendment during the year.

#### **Overview of Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### ***Government-wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flow changes in future fiscal periods (for example, salaries and benefits earned but unpaid as of year-end).

#### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The School maintains one governmental fund – its General Fund – and one proprietary fund, the Building Fund.

The School adopts an annual budget for its general fund (which may be amended, as was the case during the year ended June 30, 2009). A budgetary comparison has been provided for the general fund in the basic financial statements to demonstrate compliance with the budget.

**AXL Charter School**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2009**

**Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Government-wide Financial Analysis**

As noted previously, net assets may serve over time as a useful indicator of the School's financial position. As of June 30, 2009, the School's net assets exceeded liabilities by \$30,169. Invested in capital assets, net of related debt, was \$113,564 as of June 30, 2009. Accordingly, these funds are not available to satisfy general operating expenses of the School. The School has a deficit in unrestricted net assets of \$83,395 as of June 30, 2009. Net assets as of June 30, 2009 were as follows:

**Assets**

Cash	\$ 105,148
Related party receivable - APS	5,858
Interfund receivable	-
Capital assets, net of accumulated depreciation	
Building improvements	916,485
Office equipment	157,733
Building improvements CIP	62,400
Prepaid assets	19,975
Debt issuance costs, net of accumulated amortization	9,657
	<hr/>
Total assets	1,277,256

**Liabilities**

Accounts payable	29,217
Accrued salaries and benefits	26,278
Deferred rent	92,355
Deferred revenue	66,144
Accrued interest	5,382
Current portion of long-term debt	137,285
Long-term debt	890,426
	<hr/>
Total liabilities	1,247,087

**Net Assets (Deficit)**

Invested in capital assets, net	113,564
Unrestricted (deficit)	(83,395)
	<hr/>
Total net assets	\$ 30,169

**AXL Charter School**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2009**

Changes in net assets were as follows for the year ended June 30, 2009:

<b>Revenues</b>	
General revenues	
State categorical revenue	\$ 1,471,681
Revenue from local sources	33,416
Program revenues	
Grant and contribution revenue	337,278
	<hr/>
Total revenues	1,842,375
	<hr/>
<b>Expenses</b>	
Functions/programs	
Governmental activities	
Instruction	887,234
Support services	990,779
	<hr/>
Total governmental activities	1,878,013
	<hr/>
<b>Change in Net Assets</b>	(35,638)
<b>Net Assets - Beginning</b>	<hr/> 65,807
<b>Net Assets - Ending</b>	<hr/> <hr/> \$ 30,169

**Financial Analysis of the School's Funds**

The School has one governmental fund, the General Fund, and one proprietary fund, the Building Corporation fund, a blended component unit reported as an internal service fund (the Building Fund). The General Fund is considered a major fund and is used to account for the School's general operations. During the first year of operations, the School's General Fund balance increased by \$19,342. The Building Fund was created in May 2008 when AXL Building Corporation obtained financing for the leasing of the building and has entered into an operating lease arrangement with the School for the leasing of the building. The Building Fund ended the fiscal year with deficit net assets of \$146,906.

**General Fund Budgetary Highlights**

The School budgeted General Fund expenditures of \$1,891,048 for the year ended June 30, 2009. Actual expenditures for the year were \$1,875,998. There was one budget amendment during the year, which was not significant.

**AXL Charter School**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2009**

**Capital Assets and Debt Administration**

The School rented its facility from the Building Corporation fund for the entire year of operation, and rent payments under the lease were \$251,575 which represents the Building Corporation fund's payments for insuring the leased premises, and lease and mortgage obligations. The Building Corporation fund rented the facility from an unrelated party.

**Economic Factors and Next Year's Budget**

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) for the 2008-2009 school year was 202. The FPC projected for the 2009-2010 school year is 267. This is a major factor used in preparing the School's budget for the fiscal year 2009-2010.

**Request for Information**

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to AXL Charter School, 14100 East Jewell Avenue, Unit 27, Aurora, CO 80012.

**AXL Charter School**  
**Statement of Net Assets**  
June 30, 2009

	<u>Primary Governmental Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 105,148
Related party receivable - APS	5,858
Prepaid assets	19,975
Capital assets, net of accumulated depreciation	
Building improvements	916,485
Office equipment	157,733
Building improvements in process	62,400
Debt issuance costs, net	<u>9,657</u>
Total assets	<u>1,277,256</u>
<b>Liabilities</b>	
Accounts payable	29,217
Accrued salaries and benefits	26,278
Accrued interest	5,382
Deferred rent	92,355
Deferred revenue	66,144
Current portion of long-term debt	137,285
Long-term debt	<u>890,426</u>
Total liabilities	<u>1,247,087</u>
<b>Net Assets (Deficit)</b>	
Invested in capital assets, net	113,564
Unrestricted (deficit)	<u>(83,395)</u>
Total net assets	<u>\$ 30,169</u>

**AXL Charter School**  
**Statement of Activities**  
**Year Ended June 30, 2009**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Functions/Programs</b>				
Governmental activities				
Instruction	\$ 887,234	\$ -	\$ -	\$ (887,234)
Support services	909,882	-	239,018	(572,604)
Interest on long-term debt	80,897	-	-	(80,897)
Total governmental activities	<u>\$ 1,878,013</u>	<u>\$ -</u>	<u>\$ 239,018</u>	<u>\$ (1,540,735)</u>
<b>General Revenues</b>				
State categorical revenue				1,471,681
Revenue from local sources				<u>33,416</u>
Total general revenues				<u>1,505,097</u>
Change in Net Assets				(35,638)
Net Assets - Beginning				<u>65,807</u>
Net Assets - Ending				<u>\$ 30,169</u>

**AXL Charter School**  
**Balance Sheet – Governmental Fund – General Fund**  
**June 30, 2009**

**Assets**

Cash	\$	105,148
Interfund receivable		10,000
Related party receivable - APS		5,858
Prepaid assets		<u>19,975</u>
Total assets	\$	<u><u>140,981</u></u>

**Liabilities**

Accounts payable	\$	29,217
Accrued salaries and benefits		26,278
Deferred revenue		<u>66,144</u>
Total liabilities		<u>121,639</u>

**Fund Balance**

Restricted for TABOR		<u>19,342</u>
Total liabilities and fund balance	\$	<u><u>140,981</u></u>

Total fund balance for governmental fund	\$	19,342
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Amounts reported for governmental activities in the statement of net assets is different because:

Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets		(146,906)
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Capital assets are not included in the governmental fund statements but are included in the statement of net assets		<u>157,733</u>
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Net assets of governmental activities	\$	<u><u>30,169</u></u>
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**AXL Charter School**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance – Governmental Fund – General Fund**  
**Year Ended June 30, 2009**

<b>Revenues</b>	
State categorical revenue	\$ 1,471,681
Revenue from local sources	33,416
Grant and contribution revenue	98,260
Other revenue	<u>239,018</u>
Total revenues	<u>1,842,375</u>
<b>Expenditures</b>	
Current	
Instruction	887,234
Support services	807,043
Capital outlay	<u>181,721</u>
Total expenditures	<u>1,875,998</u>
<b>Excess of Expenditures over Revenues</b>	(33,623)
<b>Fund Balance - Beginning</b>	<u>52,965</u>
<b>Fund Balance - Ending</b>	<u><u>\$ 19,342</u></u>
Net changes in fund balance - governmental fund	\$ (33,623)
Amounts reported for governmental activities in the statement of activities are different because:	
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities	(146,906)
Certain expenses for capital outlay are included in the governmental fund statements while depreciation expense is included in the governmental activities statements	<u>144,891</u>
Change in net assets of governmental activities	<u><u>\$ (35,638)</u></u>

**AXL Charter School**  
**Statement of Net Assets – Proprietary Fund –**  
**Building Fund**  
**Year Ended June 30, 2009**

	<u>Governmental Activities - Internal Service Fund</u>
<b>Assets</b>	
Capital assets	
Building improvements	\$ 916,485
Building improvement in process	62,400
Debt issuance costs	<u>9,657</u>
Total assets	<u>988,542</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Current portion of notes payable	137,285
Deferred rent	92,355
Interfund payable	10,000
Accrued interest	<u>5,382</u>
Total current liabilities	<u>245,022</u>
<b>Noncurrent Liabilities</b>	
Notes payable	<u>890,426</u>
Total liabilities	<u>1,135,448</u>
<b>Net Assets (Deficit)</b>	
Invested in capital assets, net of related debt (deficit)	(39,169)
Unrestricted (deficit)	<u>(107,737)</u>
Total net assets (deficit)	<u>\$ (146,906)</u>

**AXL Charter School**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Net Assets – Proprietary Fund – Building Fund**  
**Year Ended June 30, 2009**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 251,575
<b>Operating Expenses</b>	
Depreciation and amortization expense	94,705
Rent expense	213,221
Total operating expenses	307,926
Operating loss	(56,351)
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	(80,897)
Amortization expense	(9,658)
Total nonoperating expenses	(90,555)
<b>Change in Net Assets</b>	(146,906)
<b>Total Net Assets - Beginning</b>	-
<b>Total Net Assets (Deficit) - Ending</b>	\$ (146,906)

**AXL Charter School**  
**Statement of Cash Flows – Proprietary Fund –**  
**Building Fund**  
**Year Ended June 30, 2009**

	<b>Governmental Activities - Internal Service Fund</b>
Cash flows from operating activities	
Receipts from customers	\$ 251,575
Payments to suppliers	<u>(120,866)</u>
Net cash provided by operating activities	<u>130,709</u>
Cash flows from capital and related financing activities	
Principal payments on capital debt	(55,194)
Interest payments on capital debt	<u>(75,515)</u>
Net cash used in capital and related financing activities	<u>(130,709)</u>
Change in cash and cash equivalents	-
Beginning, cash and cash equivalents	<u>-</u>
Ending, cash and cash equivalents	<u><u>\$ -</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (56,351)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization	94,705
Changes in operating assets and liabilities	
Deferred rent	<u>92,355</u>
Net cash provided by operating activities	<u><u>\$ 130,709</u></u>
Noncash capital and related financing activities	
Acquisition of capital assets through issuance of debt including debt issuance costs	\$ 1,053,402
Repayment of debt through payable to general fund	\$ 10,000
Amortization of debt issuance costs	\$ 9,658

**AXL Charter School**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance – Budget and Actual – General Fund**  
**Year Ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>				
State of Colorado - per pupil funding	\$ 1,565,806	\$ 1,446,508	\$ 1,471,681	\$ 25,173
Federal grant	161,942	168,390	239,018	70,628
State grant revenue	-	-	22,052	22,052
Revenue from local sources	-	-	33,416	33,416
Capital grants and contributions	<u>226,620</u>	<u>276,150</u>	<u>76,208</u>	<u>(199,942)</u>
Total revenues	<u>1,954,368</u>	<u>1,891,048</u>	<u>1,842,375</u>	<u>(48,673)</u>
<b>Expenditures</b>				
Current				
Instruction	1,044,398	1,005,072	887,234	117,838
Support services	628,029	840,647	807,043	33,604
Capital outlay	<u>220,561</u>	<u>45,329</u>	<u>181,721</u>	<u>(136,392)</u>
Total expenditures	<u>1,892,988</u>	<u>1,891,048</u>	<u>1,875,998</u>	<u>15,050</u>
<b>Excess of Revenues over Expenditures</b>	<u>\$ 61,380</u>	<u>\$ -</u>	<u>(33,623)</u>	<u>\$ (33,623)</u>
<b>Fund Balance - Beginning</b>			<u>52,965</u>	
<b>Fund Balance - Ending</b>			<u>\$ 19,342</u>	

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

**Note 1: Summary of Significant Accounting Policies**

The accounting policies of AXL Charter School (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The year ended June 30, 2009, was the School's first year of operations. Following is a summary of the more significant accounting policies.

***Reporting Entity***

The School was organized as a Colorado Nonprofit Corporation on November 28, 2005, for the purpose of entering into one or more charter school contracts with Colorado school districts. The School is a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado (the Aurora School District). It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, the Aurora School District has approved the charter of the School for a three-year period. At the end of its original charter period, the School will seek renewal of its charter in accordance with procedures set forth in the state law and school district policy/regulations.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of the School and its blended component unit, AXL Building Corporation, an entity for which the School is considered to be financially accountable. The School follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

AXL Building Corporation leased a building that houses the School (Note 6), obtained financing for leasehold improvements, and has entered into a sublease arrangement with the School. AXL Building Corporation is reported as an internal service fund (Building Fund) blended component unit.

Under current GASB pronouncements, the School has been determined to be a component unit of the Aurora School District – the primary government. As such, the School's financial results are included in the Aurora School District's Comprehensive Annual Financial Report.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

***Measurement Focus, Basis of Accounting, and Basis of Presentation***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the School's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue. Business-type activities rely to a significant extent on fees and charges for support. The School has no business-type activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. State per pupil funding under the School Finance Act is reported as a general revenue as state categorical revenue.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The effect of interfund activity has been removed from the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. This means that only current liabilities are generally included on the governmental fund balance sheet.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred and expected to be paid with current available resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are charges for rent related to the lease of the building. Operating expenses for internal service funds include rent expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

***Fund Accounting***

The accounts of the School are organized on the basis of funds. The operations of the General Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The major fund presented in the accompanying basic financial statements is the General Fund. The General Fund is used to account for the School's general operational governmental activities.

The AXL Building Corporation (Building Fund) was created in May 2008. It was created to obtain financing for tenant improvements and lease the building used by the School, which is subleased under an operating lease arrangement between the School and the Building Fund. The Building Fund is recorded as a blended component unit under the provisions of GASB 14, *The Financial Reporting Entity*. Lease payments between the School and the Building Fund are treated as rental expense for the School and as lease income for the Building Fund.

***Compliance***

**Budget**

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, including accrued salaries and benefits.

The School prepares the annual budget and presents it to its Board and to the Board of Education of the Aurora School District for approval. During the year ended June 30, 2009, one original and one amended budget were presented to and approved by both Boards for the General Fund. Budgets are required by state statutes for all governmental funds. Total expenditures for each fund may not legally exceed the amount appropriated.

**Net Assets Restricted for TABOR/Fund Balance Reserved for TABOR**

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires restrictions of net assets and reservations of fund balance for an emergency reserve equal to 3% of the General Fund's applicable operating revenues less transfers, federal funding, and donations. Due to the School's negative net assets and limited fund balance position the School is unable to reserve the required amount of \$48,101 and is therefore not in compliance with this requirement.

**AXL Charter School  
Notes to the Financial Statements  
June 30, 2009**

**Capital Reserve**

A minimum of \$298 per pupil must be appropriated to capital projects and/or risk related activities as prescribed by state statute. The School's capital reserve requirement was \$61,150, the total of which was expended on the building lease payments for the fiscal year ended June 30, 2009.

**Deficit Net Assets**

As of June 30, 2009 the Building Fund had deficit net assets in the amount of \$146,906. This deficit primarily relates to non cash items such as depreciation and straight-line rent. The School will continue to closely monitor the Building Fund.

***Assets, Liabilities and Equity***

**Cash**

The definition of cash for purposes of the statement of cash flows is cash held in checking accounts, money market accounts, and a COLOTRUST account. Cash is held in a checking account and a COLOTRUST account (government bonds money-market unrestricted account). The balances in the unrestricted cash accounts are available to meet current operating needs.

**Capital Assets**

Capital assets are utilized for general operations and are capitalized at cost if purchased or fair market value if donated, at the time of purchase or donation. Capital assets are reported in the government-wide financial statements and the internal services fund.

The monetary threshold for capitalization of assets is \$1,000. Leasehold improvements are being depreciated over the life of the lease which is 10 years. The School's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets as follows:

<b>Assets</b>	<b>Years</b>
Technology equipment	3
Furniture and fixtures	5
Playground	7

**Accrued Salaries and Benefits/Compensated Absences**

These amounts represent salaries and benefits earned by School employees, but unpaid at year-end. Each eligible employee earns five sick days and two personal days per year. School policy does not allow employees to carry over unused time to the following year. Unused sick and personal days are not paid upon resignation or termination.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

***Revenue and Expenditures***

Revenue for the governmental funds are recorded when they are determined to be both measurable and available. Generally, State of Colorado per pupil funding, donations and other income are recognized when received. Grants are recognized when qualifying expenditures are incurred. Expenditures for the governmental funds are recorded when the related fund liability is incurred and expected to be paid with current available resources. The School does not utilize encumbrance accounting.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Note 2: Cash**

***Investment Policy and Compliance***

The School's investment policy conforms to state statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than \$250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the \$250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in the School's name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern the School's deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires the School to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposits in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

Up to \$250,000 of daily deposit balances on hand at banking institutions is covered by federal depository insurance. Under the provision of GASB 40, *Deposit and Investment Risk Disclosure – an amendment of GASB Statement No. 3*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under PDPA, as discussed above. Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned.

	<b>Carrying Value</b>	<b>Bank Balance</b>
Checking	\$ 103,979	\$ 141,717

At June 30, 2009, the School had \$1,169 invested in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The pool is regulated by the Colorado Securities Commissioner. The pool operates similar to a money market fund and each share is equal in value to \$1.00. Investments of the pool consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to the pool in connection with the direct investment and withdrawal functions of the pool. Substantially all securities owned by the pool are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the specific pool. COLOTRUST is rated AAA by Standard and Poor's.

**Note 3: Capital Assets**

As of June 30, 2009, capital assets of the School consisted of the following:

	<b>July 1, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2009</b>
Governmental activities				
Building improvements	\$ 31,913	\$ 979,277	\$ -	\$ 1,011,190
Office equipment	13,060	181,721	-	194,781
Building improvement CIP	-	62,400	-	62,400
Less: accumulated depreciation	(218)	(131,535)	-	(131,753)
Capital assets, net	\$ 44,755	\$ 1,091,863	\$ -	\$ 1,136,618

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

**Note 4: Notes Payable**

As of June 30, 2009, long-term debt consisted of notes payable as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Amounts Due within One Year
Notes payable - Self Help	\$ 21,603	\$ 321,472	\$ 10,262	\$ 332,813	\$ 25,981
Notes payable - Preferred	17,900	659,530	44,932	632,498	48,904
Notes payable - Konrath	-	72,400	10,000	62,400	62,400
<b>Total</b>	<b>\$ 39,503</b>	<b>\$1,053,402</b>	<b>\$ 65,194</b>	<b>\$ 1,027,711</b>	<b>\$ 137,285</b>

The above Building Fund notes were obtained to fund the cost of leasehold improvements on a leased facility. Interest rates range from 4.99% to 10% compounded annually. As of June 30, 2009 maturity dates for the notes range from July 1, 2008 through June 30, 2018. As of June 30, 2009 principal payments under the notes are as follows:

**Notes Payable**

Fiscal Year	Principal Due	Interest	Total Payment
2010	\$ 137,285	\$ 75,163	\$ 212,448
2011	360,058	49,392	409,450
2012	57,931	42,859	100,790
2013	63,052	37,738	100,790
2014	68,625	32,165	100,790
2015-2018	340,760	62,400	403,160
	<u>\$ 1,027,711</u>	<u>\$ 299,717</u>	<u>\$ 1,327,428</u>

**Note 5: Accrued Salaries and Benefits**

The salaries and benefits earned but unpaid as of June 30, 2009 total \$26,278. Accordingly, the accrued salaries and benefits are reflected as a liability in the accompanying basic financial statements.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

**Note 6: Leases**

The Building Fund entered into a lease agreement with an unrelated party, Preferred Properties, Ltd., which commenced on April 4, 2008 and expires on June 30, 2018. The School then entered into an operating lease arrangement with the Building Fund for its school facilities for fiscal year 2009. The total lease payments for fiscal year 2009 were \$120,866. Lease expense for the fiscal year 2009 includes \$92,355 of deferred rent which is the result of recognizing escalating rent payments over the term of the lease on a straight-line basis. The deferred rent calculation is based on certain expansion assumptions that are in the term of the lease. These assumptions may be subject to change. Future commitments under the lease are as follows:

Fiscal Year	Total Payment
2010	\$ 135,486
2011	196,139
2012	196,139
2013	272,537
2014	382,608
2015-2018	1,929,197

**Note 7: Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for risks of loss, including liability, property, errors and omissions, workers' compensation, fidelity (employee dishonesty), fiduciary, and abuse or molestation. There have been no insurance claims resulting from these risks for fiscal year 2009.

**Note 8: Contingent Liabilities**

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires state and local governments to establish an emergency reserve, limits spending to a predefined benchmark and places restrictions on multiple fiscal year debt.

The TABOR Amendment is subject to judicial interpretation. The School is currently not in compliance with the requirements of the Amendment as it is unable to establish an emergency reserve equal to 3% of fiscal year spending as defined by the amendment. The required reserve as of June 30, 2009 is \$48,101; however, the School only had fund balance sufficient enough to reserve \$19,342.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

**Note 9: Defined Benefit Pension Plan**

***Plan Description***

The School contributes to the Combined State and School Division Trust Fund (CSSDTF,) a cost sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). CSSDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the CSSDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the Colorado State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for CSSDTF. That report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303.832.9550 or 1.800.759.7372.

***Basis of Accounting for the CSSDTF***

The financial statements of CSSDTF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. CSSDTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

***Funding Policy***

Plan members and the School are required to contribute to the CSSDTF at a rate set by state statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. For the fiscal year ended June 30, 2009, the contribution rate for members was 8% and for the School was 12.95% effective January 1, 2009, through June 30, 2009 and 12.05% effective January 1, 2008 through December 31, 2008. The School's contributions to CSSDTF for the year ended June 30, 2009 was \$98,948 which equaled the required contributions.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

**Note 10: Post-employment Health Care Benefits**

***Plan Description***

The School contributes to the Health Care Trust Fund (HCTF,) a cost-sharing multiple employer post employment health care plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the Colorado State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303.832.9550 or 1.800.759.7372.

***Basis of Accounting for the HCTF***

The financial statements of HCTF are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenue in the period in which the employer pays compensation to the member. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. HCTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

***Funding Policy***

For the fiscal years ended June 30, 2009 , the School was required to contribute at a rate of 1.02% for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's contributions to HCTF for the year ended June 30, 2009 was \$8,073 which equaled the required contributions.

**Note 11: Related Party Transactions**

State categorical revenue consists of cash payments passed through the Aurora School District totaling \$1,471,681 for the year ended June 30, 2009. Under state statute, the Aurora School District may charge the charter schools for various services provided by the Aurora School District. For the fiscal year ended June 30, 2009, the School recorded expenses of \$157,910 relating to such services, which is net of a receivable resulting from the year-end reconciliation process totaling \$5,858. The School has contested the fiscal year 2009 reconciled amounts related to special education services and the matter is currently under review. Any adjustments will be applied to the fiscal year ending June 30, 2010.

**AXL Charter School**  
**Notes to the Financial Statements**  
**June 30, 2009**

**Note 12: Subsequent Event**

Subsequent to year-end, additional amounts totaling \$201,618 have been borrowed under the Konrath note payable for tenant improvements. On December 3, 2009 an agreement was entered into to refinance both the Konrath and Self-help notes payable. The new agreement calls for a maturity date of December 1, 2016 with an interest rate of 5.5%. Based on the new agreement total principal payments for all debt will be as follows:

Fiscal Year	Principal Due	Interest	Total Payment
2010	\$ 87,310	\$ 69,031	\$ 156,341
2011	132,986	78,904	211,890
2012	142,191	69,700	211,891
2013	152,064	59,826	211,890
2014	162,659	49,232	211,891
2015-2018	599,708	81,203	680,911
	<u>\$ 1,276,918</u>	<u>\$ 407,896</u>	<u>\$ 1,684,814</u>

**Note 13: Invested in Capital Assets, Net of Related Debt**

Invested in capital assets, net of related debt, is comprised of the following as of June 30, 2009:

	Governmental Activities	Building Fund
Total capital assets, net of accumulated depreciation	\$ 1,136,618	\$ 978,885
Less: Notes payable	(1,027,711)	(1,027,711)
Plus: Debt issuance costs	9,657	9,657
Less: Construction related accounts payable	(5,000)	-
	<u>\$ 113,564</u>	<u>\$ (39,169)</u>

**Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Directors  
AXL Charter School  
and Board of Education  
Joint School District 28-J of the Counties of Adams and Arapahoe, Colorado  
Aurora, Colorado

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of AXL Charter School (the School) (a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado) as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

## **Departure from Generally Accepted Accounting Principles**

### *Criteria or Specific Requirement*

GAAP for governmental entities requires the use of both full accrual and modified accrual accounting depending on the individual financial statements and/or fund types being presented.

### *Condition*

We noted that the School did not consistently apply full accrual and modified accrual accounting throughout the year resulting in incorrect interim financial statements and numerous year-end journal entries recorded by the School's internal accounting staff as well as audit adjusting journal entries.

### *Effect*

Several adjustments related to capital assets, grant revenue, bond issuance costs, prepaid expenses, rent expense, and net assets/fund balance were recorded with the following net effect:

- General fund – increase assets by approximately \$15,000
- General fund – decrease liabilities by approximately \$22,000
- General fund – increase beginning fund balance by approximately \$45,000
- General fund – decrease revenues by approximately \$73,000
- General fund – decrease expenditures by approximately \$65,000
- Building fund – increase assets by approximately \$55,000
- Building fund – increase liabilities by approximately \$135,000
- Building fund – increase beginning net assets by approximately \$25,000
- Building fund – decrease revenues by approximately \$10,000
- Building fund – increase expenses by approximately \$95,000

### *Recommendation*

We recommend that generally accepted accounting principles for governmental organizations be used consistently throughout the fiscal year to produce more accurate interim financial statements and reduce the number of adjustments required at year-end.

### *Views of Responsible Officials and Planned Corrective Action*

The Board will ensure that GAAP for governmental organizations are consistently applied throughout the current year and future years. The Finance Director will implement both full accrual and modified accrual accounting for governmental entities.

## **Tenant Improvement Debt**

### *Criteria or Specific Requirement*

In order to accurately reflect the School's financial position, all debt incurred during the fiscal year should be reflected in the financial statements. A process should be in place that ensures that all debt agreements are properly identified and reflected in the financial statements.

### *Condition*

We noted that the School did not record a liability related to the Konrath agreement for tenant improvements.

### *Effect*

This error resulted in an audit adjustment to increase liabilities by \$62,400 as of June 30, 2009 and an additional liability of approximately \$201,600 subsequent to the fiscal year-end.

### *Recommendation*

We recommend that the School develop a process that will ensure that all agreements that impact the financial statements have been communicated to the proper individuals to ensure inclusion in the financial statements.

### *Views of Responsible Officials and Planned Corrective Action*

The turnover in Finance staff and the fact that the Konrath agreement was not received until after the fiscal year-end meant the information was not communicated to the auditors or recorded in the timely manner. A database will be maintained with all agreements that impact the financial statements. These agreements will be in the custody of the Finance Director who will maintain the database on a regular basis and reconcile the information to the accounting system.

## **Review of Journal Entries and Supporting Documentation**

### *Criteria or Specific Requirement*

Internal control surrounding journal entries is a critical element of reporting complete and accurate financial statements. Journal entries should be reviewed and approved by an individual independent of their preparation and adequate documentation should be retained that supports the business purpose of all financial transactions.

### *Condition*

We noted that journal entries are not being reviewed and adequate documentation did not exist to support journal entries and certain other financial transactions.

### *Effect*

There is an increased chance of an error or irregularity occurring and going undetected when controls surrounding the journal entry process are inadequate. In addition, supporting documentation is required by many regulators to ensure compliance with various governmental requirements. The inability to provide supporting documentation could result in fines, penalties or disallowed costs.

### *Recommendation*

We recommend that a process be implemented that will allow another employee or board member to review of all journal entries, preferably before the journal entries are recorded to QuickBooks, but at a minimum before monthly financial statements are prepared. All reviews should be clearly documented. Supporting documentation for journal entries as well as all other financial transactions should be maintained in an orderly fashion.

### *Views of Responsible Officials and Planned Corrective Action*

**Journal Entries:** Journal entries will be prepared by the Finance Director and reviewed and approved by the Treasurer prior to preparation of the monthly financial statements.

**Supporting Documents:** The Finance Director has created a filing system for documentation relating to all financial transactions, including journal entries. The filing system will be maintained and secured.

## **Segregation of Duties**

### *Criteria or Specific Requirement*

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording and monitoring of transactions.

### *Condition*

We noted several incompatible duties in the cash disbursements, cash receipts and payroll cycles.

### *Effect*

Incompatible duties related to the access, recording and monitoring of cash disbursements, cash receipts, and payroll transactions increase the risk of error or fraud occurring and going undetected.

### *Recommendation*

To reduce the possibility of errors or fraud going undetected in the normal course of business, we encourage you to limit, to the extent possible, the performance of incompatible duties by individuals in the School's accounting department.

### *Views of Responsible Officials and Planned Corrective Action*

The new internal control system involves:

**Cash receipts** are received by various Admin staff:

1. Director of Communication – Club Receipts; maintains copies of checks and from whom.
2. Director of Operations – Hot lunch receipts and also maintains a separate database system recording hot lunch orders from parents
3. Head of School – Other receipts
4. Office Manager – Mail

Recording and monthly reconciliation is done by the Director of Finance. When handling cash receipts, the Director of Finance:

- Receives all checks and cash for deposit weekly from School Admin staff
- Deposits all deposits weekly
- Records receipts/deposits in QuickBooks

Main policy: All deposits are deposited intact weekly while all payments will be made by check.

Cash payments are made weekly. Director of Finance prepares all invoices to be paid when due that week. Head of School reviews each invoice when signing the checks.

Monthly Reconciliations – are performed monthly by the Director of Finance of cash and bank account statements to provide good checks and balances.

Segregation of duties is difficult to accomplish in a one-person finance department. We are reviewing the current process and procedures in view of using board members and other staff members as far as possible to enhance the internal control system.

### **Grant Revenue**

#### *Criteria or Specific Requirement*

Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires that when the modified accrual basis of accounting is used, revenues resulting from voluntary nonexchange transactions be recognized when all applicable eligibility requirements are met and the resources are available. If assets are received before the eligibility requirements are met, the recognition of revenues should be deferred until those requirements are met. A critical element of properly recording grant revenue is the proper identification and recording of grant expenditures.

#### *Condition*

The School did not properly recognize revenue for certain grants for which the eligibility requirements were met and resources were available. In addition, certain grant expenditures were not recorded properly or in the proper period resulting in audit adjustments and issues impacting grant revenue.

#### *Effect*

These errors resulted in audit adjustments to grant revenue totaling approximately \$74,000.

### *Recommendation*

We recommend that the School implement policies and procedures to analyze and monitor grant agreements to determine when grant revenue should be recognized. Grant agreements should be reviewed to ensure terms are understood and determine if revenue recognition is dependent on eligible expenditures or can be recognized immediately as an unrestricted contribution. Grant revenues, cash receipts, and expenditures should be analyzed to determine if a grant receivable or deferred revenue exists. Recognition of grant revenue should be supported and documented based on the occurrence of eligible expenditures.

### *Views of Responsible Officials and Planned Corrective Action*

The Finance Director is in the process of creating a grants database that will enable identification of restrictions and conditions of each grant. Grant accounting will be implemented to ensure that expenditures comply with the conditions of the grant. Grant accounts will be reconciled with on a regular basis. The Finance Director will ensure that revenue is recognized in accordance with the conditions of each grant. Grant accounting will be part of the Treasurer's monthly review with the Director of Finance.

\* \* \* \* \*

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the finding related to departure from generally accepted accounting principles to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Colorado Department of Education's *Financial Policies and Procedures Handbook*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the School's management in a separate letter dated November 6, 2009.

The School's responses to the findings identified in our audit are described above. We did not audit the School's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, the Board of Education, management and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 6, 2009